

ESG strategy and oversight in Indian boardrooms

August 2023



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Foreword by the Institute of Directors

We believe that this survey report will serve as a valuable resource for board members, executives, investors, regulators, policymakers, and all stakeholders interested in understanding the current state and future trajectory of ESG in boardrooms. By fostering a deeper understanding of the challenges, opportunities, and current practices, we aim to contribute to the collective effort of building more sustainable and inclusive organizations.

IOD is privileged to have conducted this joint survey on ESG Board Strategy and Oversight with Diligent Institute.

This Survey is one of its kind in India. This initiative presents a comprehensive overview of how boards think about and act on ESG issues. The report presents the board's view of the risks involved and also the potential opportunities of ESG integration into board's strategy for long-term financial prosperity. The uncertainties due to climate change and other geopolitical issues have adverse impact on business prospects and various issues need to be incorporated appropriately.

The market regulator, the Securities and Exchange Board of India (SEBI), has recently developed ESG Reporting guidelines, making India one of the relatively few countries to have a regulatory regime ensuring ESG integration to increase transparency in business operations.

The report clearly shows that boards believe ESG considerations will be important for policymakers, stakeholders and investors. Transparent reporting on ESG issues has been benchmarked for international aid agencies, governments and banking institutions to ensure that companies make decisions in the interest of people-centric and inclusive growth.

Today, many major institutions have placed significant emphasis on ESG while factoring their investment decisions. We are witnessing many organisations integrating ESG into their business models at the very nascent stage.

Additionally, India has a large MSME ecosystem – many of which have graduated into public listed companies clearly impacted by ESG concerns.

IOD is sure that this report will be a game-changer for Indian companies who are becoming globally competitive and ESG conscious. Thank you for your interest in this survey report on ESG board strategy and oversight. We hope that the insights presented here will inspire meaningful discussions and actions that drive positive change in the corporate world.



Lt. Gen. Surinder Nath, PVSM, AVSM (Retd.)
President, Institute of Directors

Foreword by Diligent Institute

Diligent Institute is delighted to partner with IOD India to shed further light on ESG board oversight, strategy and implementation for different companies around the world. Watching the development of the “ESG story” in the corporate world has been one that we have monitored and supported closely, with several reports, regular commentary and two certificate programs for directors and senior executives.

We have witnessed a great shift towards ESG in the last few years, including the rise of more stakeholder-centric models of governance as well as heightened regulation around the subject. Stakeholders such as employees, investors and customers are demanding more from issuers on the topic and companies are expected to respond. Increasingly, not incorporating elements of ESG into business strategy can be viewed as a failure to align with stakeholder expectations or to create sustainable long-term value.

In the last two years, we have conducted similar surveys and reports with the Institute of Directors in Ireland and with Spencer Stuart on board oversight of and strategy around ESG. These reports have shown that ESG oversight is often overseen by the full board and boards are integrating ESG into their overall strategic direction.

This research with IOD India has afforded us the opportunity to tap into another huge market to understand how trends may be similar or different around the world. We are truly excited by this collaboration and we hope that the results may be a resource for leaders to promote ESG strategy and integration going forward.



Dottie Schindlinger

Executive Director, Diligent Institute

Executive Summary

This survey provides a comprehensive understanding of the current state of ESG integration in Indian boardrooms, explores the challenges faced by companies and identifies best practices and emerging trends. It further highlights how important ESG has become for Indian Corporate Directors, how they are integrating ESG in their strategies and what mechanisms have been installed to oversee its implementation. The survey targeted board members, senior executives and professionals involved in ESG initiatives across various industries in India. ESG has become a crucial foundation for assessing a company's performance beyond financial indicators in recent years. Organisations' dedication to sustainability, social responsibility, and strong governance is receiving more attention from investors, regulators, customers and other stakeholders. As businesses strive to incorporate these factors into decision-making, boardrooms can serve as stewards of this transformation.

The world has witnessed pivotal events in the ESG industry over the past year. Be it in terms of strategy, action, oversight or simply conversation, ESG is a growing concept on boards' agendas. Indian Corporate Directors are optimistic about ESG, and mostly view it as an opportunity.

From earlier research, we are seeing that the full board usually takes overall oversight for ESG related issues and factors. It is also worth noting that specialised ESG Committees are primarily seen as a committee for the environment, with little oversight responsibility for social and governance components of ESG. Further, focus on ESG is mostly in terms of environmental and social components in general. When directors start discussing ESG, they usually discuss the environmental and social aspect of it. There is usually less emphasis on the governance component from what we are seeing.

Methodology

IOD India and Diligent Institute surveyed a total of 104 directors comprised of Board Chairs, Non-Executive Directors and Executive Directors spanning private, pre-IPO companies listed companies, not for profit companies and more. Out of all respondents, around 38% were from private enterprises and 40% were from public/listed companies.

The survey was largely attempted by Board Chairs, Managing Directors and Executive Directors. It also saw encouraging responses from Company Secretaries, Independent Directors and Consultants.

Profile of the respondents, categorised on the basis of number of employees, market capitalisation, respondent organisation, and respondent profile are enclosed as *Annexure 1*.

This survey gained more than 17000 impressions from the Indian corporate sector. The target population for the survey was Indian Board Directors and Key Managerial Personnel (KMPs). However, responses from senior executives of companies were also recorded and analysed.

Process:

A. Multiple Choice Survey Questions

The subject questions were divided into two broad categories: ESG strategy and integration, and board oversight. It was administered online via an anonymous questionnaire.

B. Open-Ended Survey Questions

Survey respondents (65% of the total respondents) who expressed an interest in providing further information were approached with additional open-ended questions. Fourteen percent of these respondents have shared additional insights** which have been captured in the report.

C. Survey Timing

The Survey was launched on April 21, 2023 and was kept open until June 19, 2023.

D. Consent & Anonymity

The intended use of the data was made clear to every respondent in advance. No aspect of the information gathered has been shared with any third party, and complete confidentiality and anonymity were upheld.

The combination of robust survey design, appropriate data collection methods and rigorous data analysis techniques build the validity and credibility of this survey report. However, it is also important to acknowledge certain limitations that may have influenced the findings.¹

** denotes qualitative responses in the report

1. Please note that there may be inherent limitations on this research as it is survey based. The results of the survey is based on respondents who may not provide accurate and honest answers to avoid reflecting themselves in a negative manner.

This report is structured as follows:

- **Analysis and discussion:** This section delves into the data, offering analytical perspectives and discussing the implications for organisations and stakeholders. It explores the current trends of ESG integration in boardrooms and addresses the barriers and opportunities that exist.
- **Best practices:** In this section, we present a collection of best practices identified through the survey, showcasing successful strategies employed by organisations to drive ESG integration in their boardrooms. These practices can serve as guidance for companies seeking to enhance their ESG performance and governance.
- **Conclusion:** The final section summarises key takeaways and emphasises the importance of ESG integration in boardrooms for sustainable and responsible business practices. It also highlights areas for further research and provides recommendations for organisations looking to advance their ESG agendas.

Key Findings (Indian Boardrooms)

50%

perceive ESG as more of an opportunity, compared to 56% in Europe and 30% in the US

16.5%

perceive ESG more as a risk, compared to 13% in Europe and 34% in the US

92%

believe that ESG should be incorporated into security valuation, in Europe, that percentage was 73%, US: 42%

24%

describe a lack of clarity as a major obstacle in ESG integration, 14% cite competing business or strategic interests, 13% are concerned about lack of allocated budget

27%

discuss their progress on ESG quarterly. Globally, this was 22%

61%

feel they spend the right amount of time discussing ESG in the boardroom, compared to 72% globally

49%

report publicly on ESG

7.69%

follow Business Responsibility and Sustainability Reporting (BRSR) voluntarily

Outlook on ESG

Our survey results indicate that boards in India view ESG more in terms of opportunities than risks. Fifty percent of respondents indicated that they perceive ESG as an opportunity. Only 16.5% indicated that they see ESG as a risk.

Do leaders view ESG in terms of risk or opportunity?



“Adoption of ESG should become a way of life and in every action of good corporate citizens”

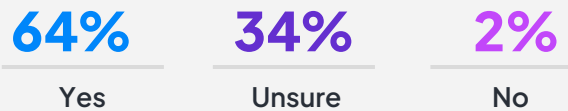
-Financial Consultant in an automotive industry, IOD Member**

Should ESG factors be incorporated into security valuation?



92% of directors believe that ESG should be incorporated into to security valuation. Globally, this number was 57%.

Do ESG metrics positively influence stock performance?



While approximately 64% of the respondents believe that incorporating ESG metrics has positively influenced their stock performance, a small percentage of respondents (2%) did not perceive any such impact. This demonstrates the growing confidence directors have in the benefits of ESG implementation.

Where do directors see their companies' ESG efforts headed in the next 5 years?

Almost 40% of directors in our sample feel that their efforts towards ESG initiatives will increase or intensify in the coming years. This is in line with findings from the global report.²

In summary, respondents express that ESG will help companies better position themselves in the market. Directors also feel that there will be a boost in green investments, green technology, renewable energy resources and reduction in the use of fossil fuels.

"I predict that services will become more expensive in the coming years as sustainability comes at a cost; Carbon taxes and other regulations render even normal products expensive."

- Non-Executive Director in top consulting firm, IOD Member**

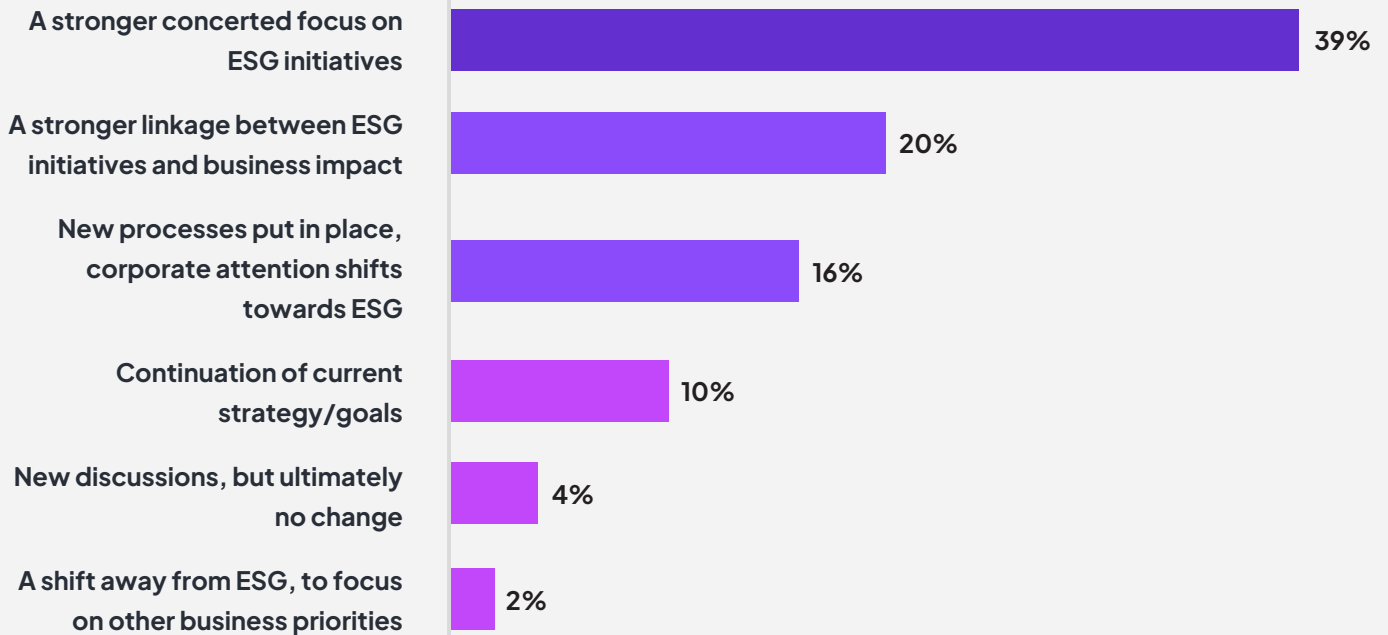
"Organisations that are becoming ESG-compliant today will reap benefits in the coming years and will enjoy investor interest."

- IOD Member**

"I optimistically believe that ESG compliance is merely a reminder to make their organisation more aligned; if ESG guidelines are integrated and used as the cornerstone of organisations, everything will fall into place in the future."

- Board Chair, IOD member**

Respondent predictions: The future of ESG integration & strategy

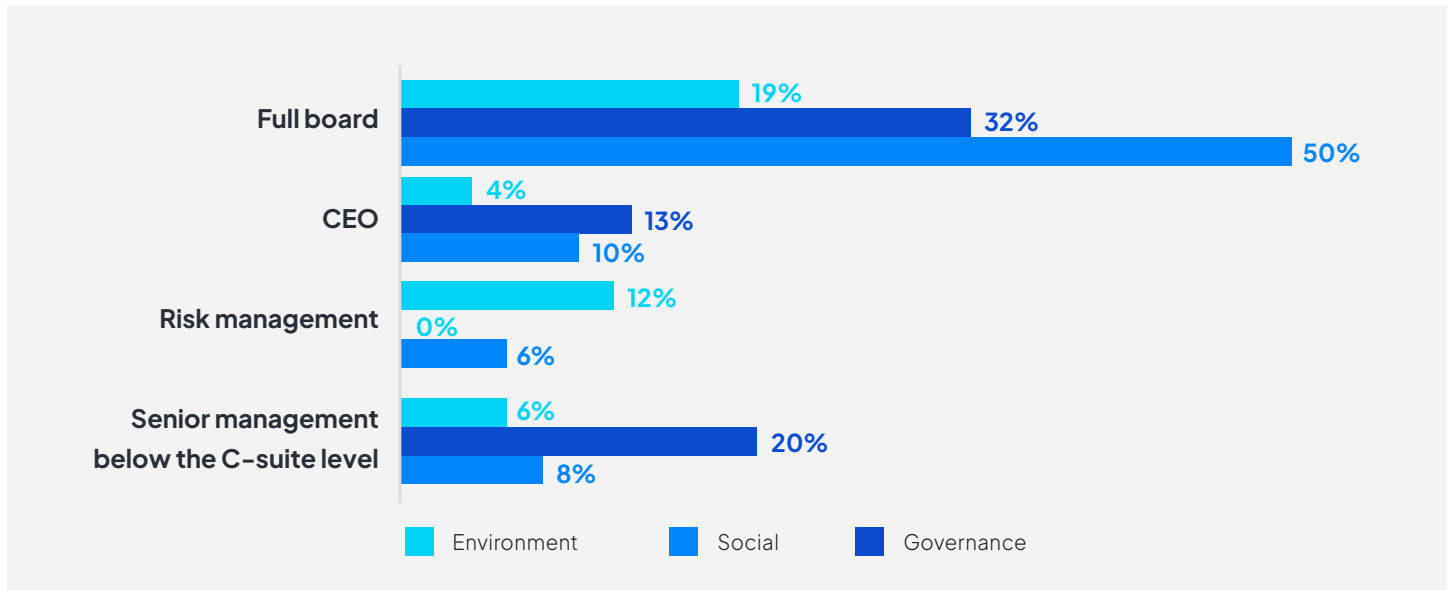


2. Excerpts of this report appeared here: <https://www.diligentinstitute.com/wp-content/uploads/2023/06/2023-Sustainability-in-the-Spotlight-Report.pdf>

Board oversight of ESG

Who oversees ESG at the board level?

Data shows that the full board is the most likely to have primary responsibility for overseeing the company's strategy on ESG. Around 48% of the oversight responsibility across E, S & G components falls to the full board.



For companies with an ESG Committee, this committee is primarily used for environmental oversight, with relatively fewer respondents indicating that this committee is used to oversee the social and governance components of ESG.

What issues does the ESG Committee oversee?

52%
Environment

29%
Social

19%
Governance

Who oversees the 'E' of ESG?

	Environmental related risks	Environmental business model risks	Environmental chain risks	Climate reporting
Full board	19%	23%	12%	21%
ESG committee	27%	17%	0%	18%
Risk committee	12%	17%	18%	0%

A majority of companies place the responsibility of overseeing the environmental component of ESG at the full board level. Globally, almost 50% respondents place the responsibility of ESG oversight at the full board level. ³

Who oversees the 'S' of ESG?

	Employee engagement	Human capital	Social supply chain risks	Public policy	Community relations
Full board	32%	36%	17%	49%	28%
ESG committee	11%	8%	11%	4%	14%
Senior management below the C Suite Level	24%	23%	22%	12%	18%

With respect to social metrics, the distribution of oversight responsibilities reveals a notable trend. While the majority of boards take on the responsibility at the full board level, there is a more diverse allocation of oversight among other entities such as the CEO and the Senior Management below the C-suite level. The involvement of ESG committee is also relatively common for oversight of social metrics.

3. Excerpts of this report appeared here: <https://www.diligentinstitute.com/wp-content/uploads/2023/06/2023-Sustainability-in-the-Spotlight-Report.pdf>

Who oversees the 'G' of ESG?

	Board diversity recruitment/ policy/strategy	Appointment and accountability of ESG issues to appropriate board committees	Bribery and corruption, political contributions
Full board	62%	44%	45%
ESG committee	3%	12%	3%
Senior management below the C Suite Level	7%	6%	10%

The governance component is primarily the responsibility of the full board according to our respondents. It is worth noting that the governance component is less frequently overseen by an ESG Committee compared to other entities.

How is board oversight of ESG evolving?

48% of respondents indicated that their boards are discussing ESG issues in the boardroom more frequently compared to a year ago. Additionally, 21% of respondents created a new board committee or sub-committee to better oversee one or more ESG related issues, and 14% of respondents formalized oversight responsibilities in governing documents (including committee charters).

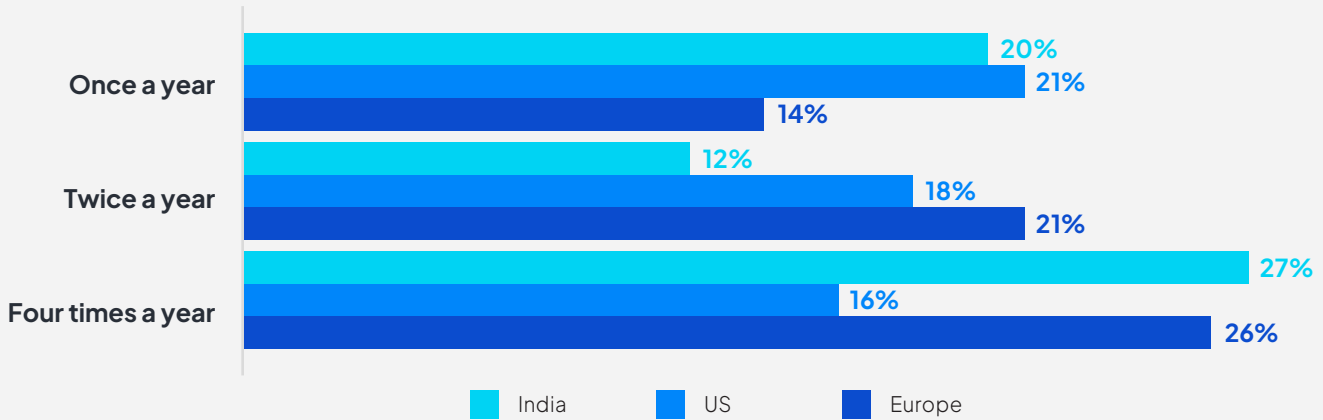
How frequently do boards evaluate progress on ESG-related goals/strategies?

Our data shows that 84% of boards evaluate their progress on ESG at least once a year, out of which 27% evaluate their progress on ESG goals every quarter. This indicates a growing recognition of the importance of ESG and an overall broader shift towards responsible and sustainable business practices. In Diligent Institute's global report with Spencer Stuart, the findings suggest that 22% of respondents indicated that they evaluate their progress on ESG-related goals every quarter.⁴



4. Diligent Institute, Spencer Stuart, June 2023, <https://www.diligentinstitute.com/wp-content/uploads/2023/06/2023-Sustainability-in-the-Spotlight-Report.pdf>

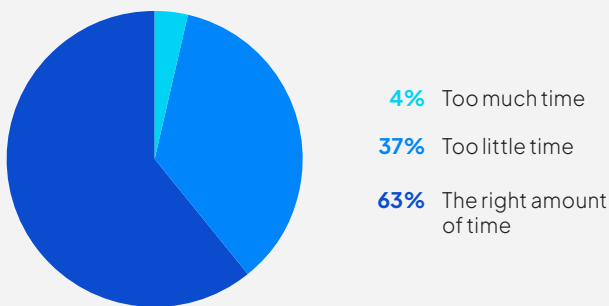
Evaluating progress on ESG goals



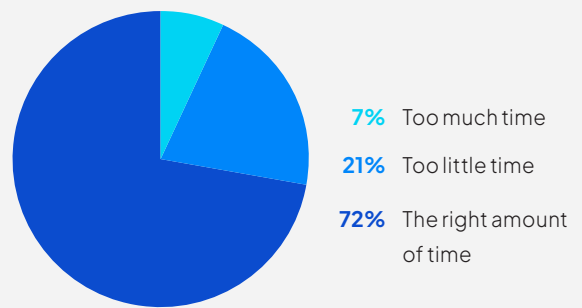
Are boards spending the right amount of time discussing ESG related issues?

Data shows that the 4% of boards in India indicate they spend too much time discussing ESG related issues. The global report indicated that in Europe and the US, these percentages are 2% and 10% respectively.⁵

Do boards spend the right amount of time on ESG?



India



Global

5. Diligent Institute, Spencer Stuart, June 2023, <https://www.diligentinstitute.com/wp-content/uploads/2023/06/2023-Sustainability-in-the-Spotlight-Report.pdf>

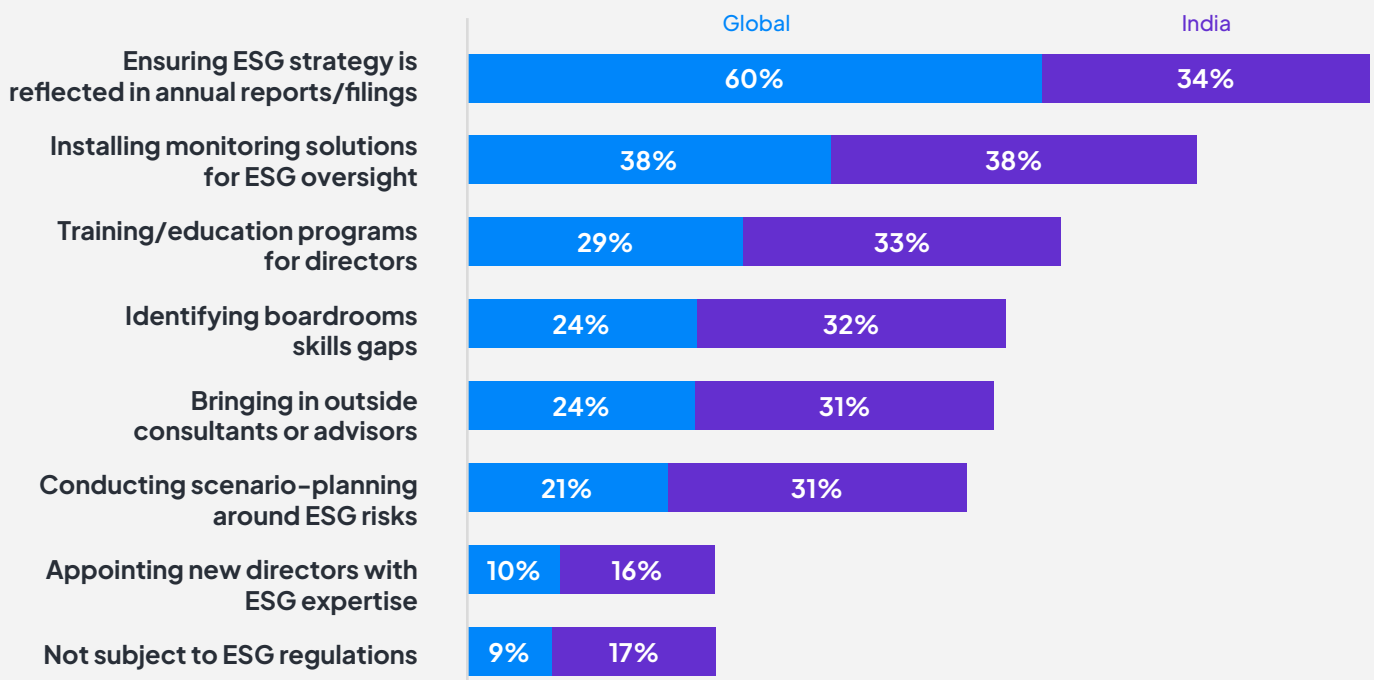
Board strategy for ESG integration

How are boards connecting ESG with corporate Strategy?

How are boards preparing for current or upcoming ESG regulation?

Boards in India are taking a variety of actions to better oversee ESG – and to prepare for potential regulation. Progress on Indian boards is aligned with global trends. Many of our respondents report enhancing ESG disclosures and installing monitoring solutions for ESG oversight and visibility.

Board action to prepare for ESG regulation



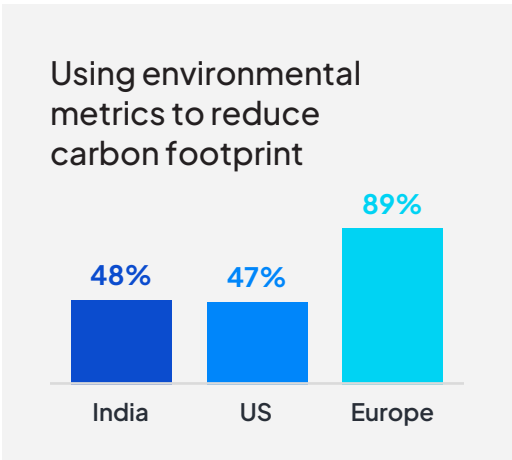
Boards in the region have also been working towards incorporating training programmes for directors, and also bringing in external advisors. While approximately 50% of boards are trying to embrace ESG by enhancing disclosures, 50% of boards are also not taking much initiative on this front.

Around 30% of the respondents are taking one or the other step towards ESG integration, which implies that approximately 70% of the respondents have not taken any action to incorporate ESG yet. Twenty-three percent of the respondents indicated that their discussions were ongoing. These trends reflect that ESG is still at the nascent stage, but there is a growing focus on it.

Where have boards incorporated environmental metrics?

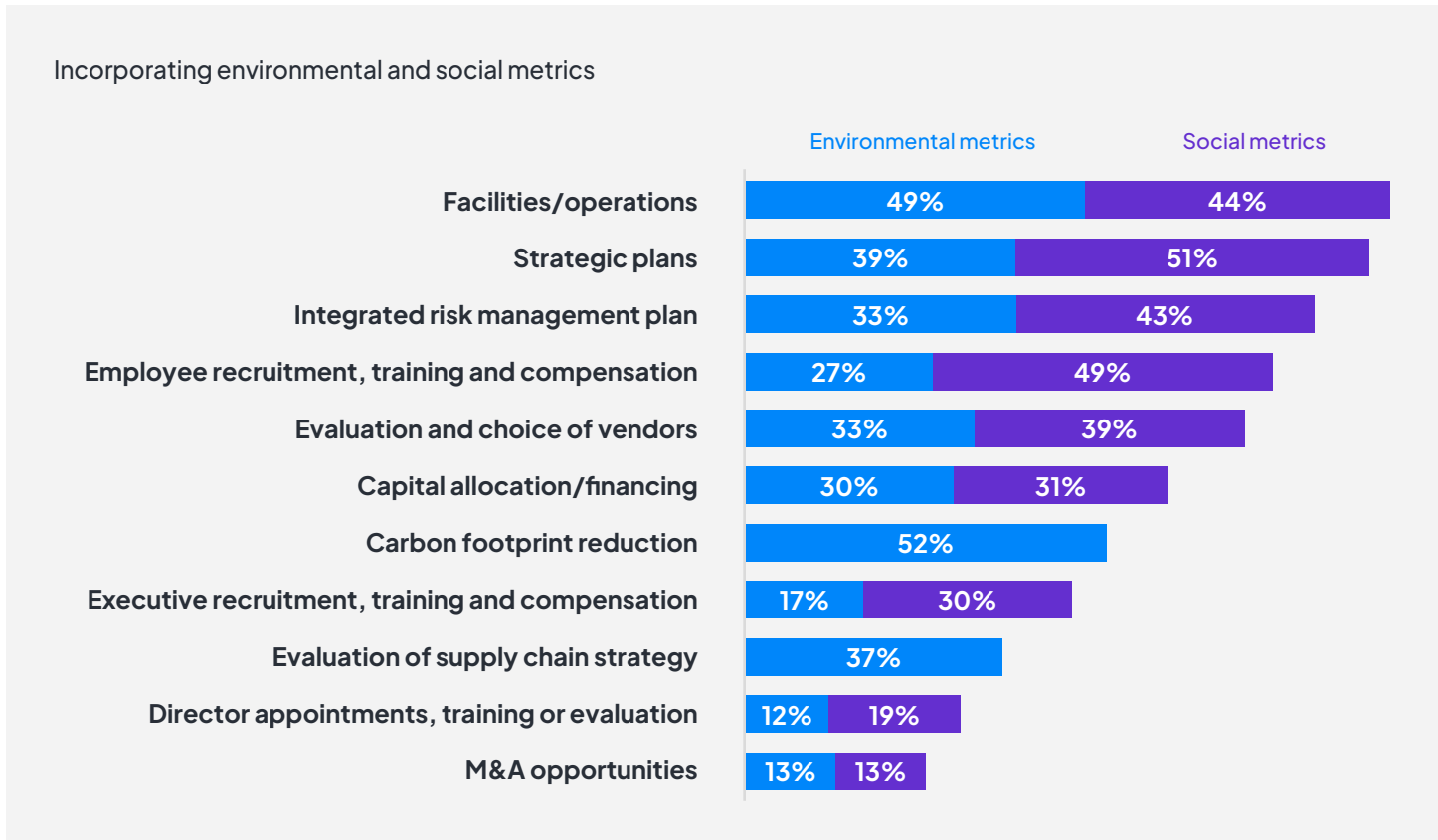
In our responses, the most common area organisations are incorporating environmental metrics is in the area of carbon footprint reduction – in line with global trends. Nearly half of our respondents in India selected this option compared to 47% in the United States and 89% in Europe.

Further, while there is a high focus on employees with respect to environmental training and sustainability-based recruitment, there is a low focus on these parameters when it comes to directors and senior executives.



Where have boards incorporated social metrics?

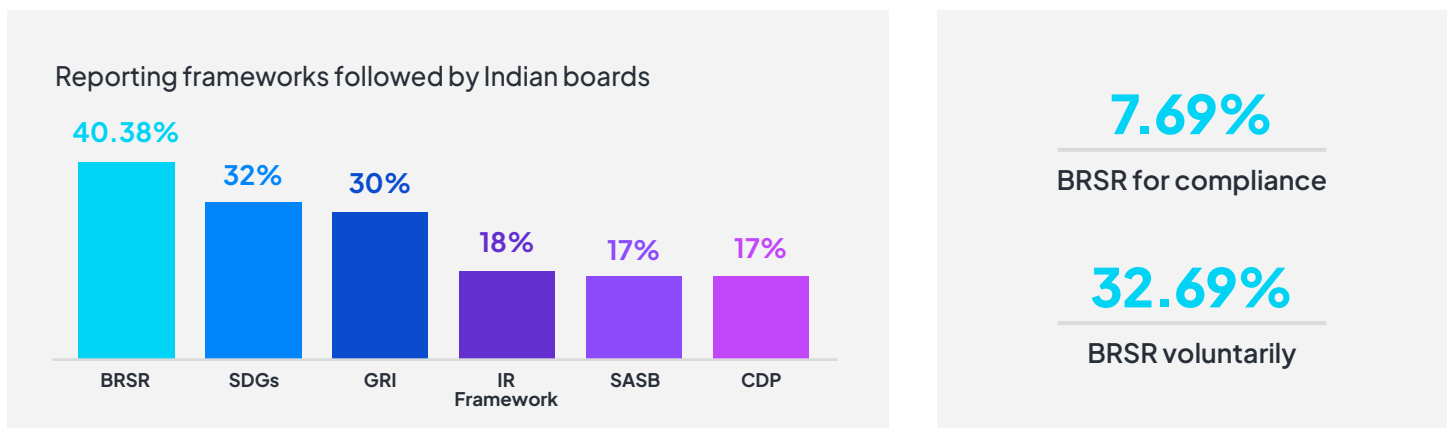
Among our respondents, most boards in India are working actively on incorporating social metrics into employee recruitment, training, evaluation and compensation. While there is high focus on employees with respect to diversity, inclusion, compensation etc.; there is low focus on these parameters when it comes to director and senior executive appointments, trainings and evaluations. This is aligned with the results of the global report as well. Conducting board and key managerial persons (KMP) performance evaluations may help close this gap.



ESG reporting framework: Growing interest from Indian regulators

What frameworks do companies use to report on ESG issues?

Nearly 41% of Indian boards that report on ESG have adopted the Business Responsibility Sustainable Reporting Framework (BRSR), as being pushed by the market regulator of India, the Securities and Exchange Board of India (SEBI). Many companies also report according to the United Nations Sustainable Development Goals (UN SDGs). Around 50% of boards report through other frameworks such as Task Force on Climate-related Financial Disclosures (TCFD), International Finance Corporation (IFC) Performance Standards, UN Principles for Responsible Investment (PRI); Streamlined Energy and Carbon Reporting (SECR).



“The requirement for strict compliance and reporting from companies will push organisations into greenwashing and true ESG implementation may not happen at all”

- Fraud Investigations, Public Relations and Corporate Security expert, and IOD Member

What limits ESG implementation?

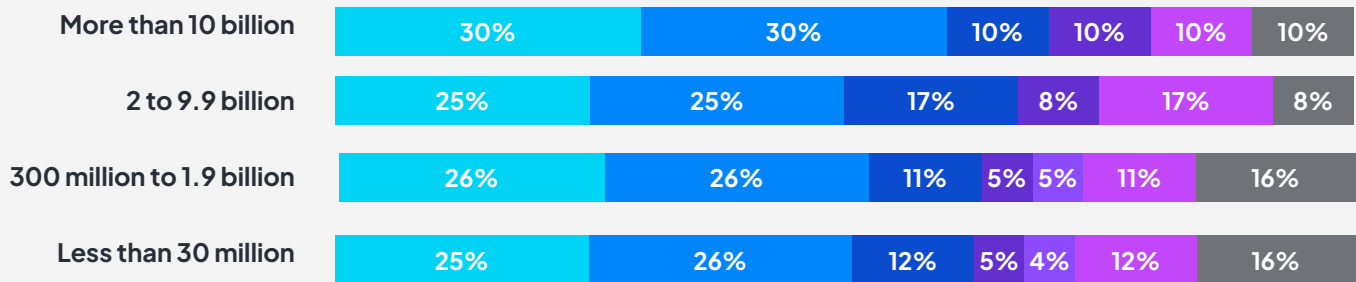
Survey results indicate that the most common obstacle to the implementation of ESG is a lack of clarity about what it means for the company; 24% of respondents described this as a major obstacle.

Around 13% of respondents also feel that competing business interests and/or a lack of a dedicated budget for ESG initiatives have become a major obstacle to ESG integration.

Encouragingly, the highest number of respondents (26%) noted that there are no obstacles in the way of ESG implementation for their companies.

Administrative processes	ESG is not a priority area currently	Lack of clear leadership accountability	Lack of dedicated budget	Competing business or strategic interests	Lack of clarity for what ESG means for the company	No obstacles
4%	4%	6%	13%	13%	24%	26%

Obstacles to ESG integration experienced by firm size, based on market capitalisation



- Lack of clarity for what ESG means for the company
- No obstacles
- Lack of dedicated budget
- Lack of clear leadership accountability
- Not applicable; ESG is not a priority area currently
- Competing business or strategic interests
- Other

A lack of a dedicated budget and a lack of leadership accountability do not seem to be obstacles in most of the larger, more highly valued organisations. For a few smaller, less valued organisations, ESG is not currently a priority area; whereas no large organisation has identified this as an obstacle. A bigger number of high-valued organisations have expressed that they have no obstacles in integrating ESG.

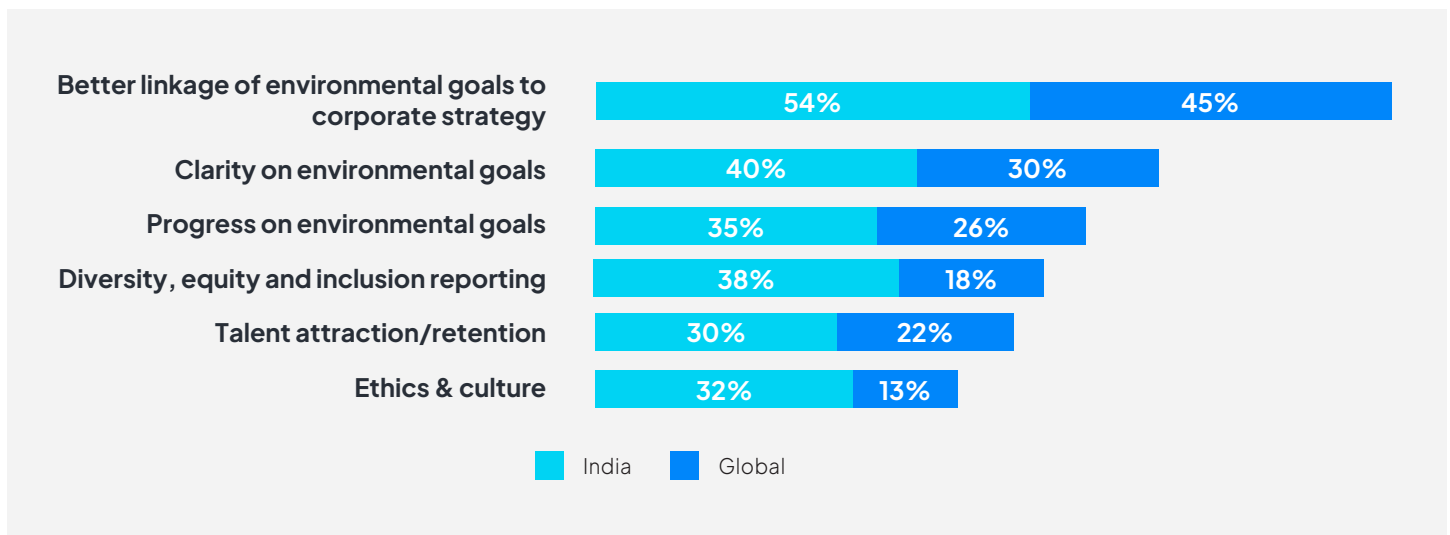
How can companies improve ESG implementation?

Where does the board need additional insight?

The findings of the survey indicate specific areas where boards seek additional insight to enhance their governance practices when it comes to ESG.

Approximately 54% of the respondents highlighted the need for better linkage of environmental/sustainability goals to corporate strategy. Comparatively, in Diligent Institute's global study with Spencer Stuart, the findings highlighted that 45% of respondents chose this option.⁶

The majority of boards recognise the need for better linkage of environmental/sustainability goals to corporate strategy, clarity on environmental/sustainability goals, and a focus on diversity, equity, and inclusion reporting (DE&I). Additionally, talent attraction/retention, ethics & culture emerged as significant areas requiring additional insights.



“I would highly recommend board upskilling and ESG training to stay updated with evolving ESG regulations.”
 - KMP of a publicly listed company**

6. Diligent Institute, Spencer Stuart, June 2023, <https://www.diligentinstitute.com/wp-content/uploads/2023/06/2023-Sustainability-in-the-Spotlight-Report.pdf>

Concluding thoughts

ESG oversight: Indian boardrooms and a global comparison

The survey results have shown that Indian boardrooms have a positive, if emergent, outlook on ESG. To summarise, Indian boards along with their European counterparts are likely to view ESG in terms of opportunities which is very encouraging. The recent adoption of BRSR in India by SEBI is a step in the right direction, which would put Indian companies on the path to sustainable business and stakeholder governance.

Growing dialogue in corporate boardrooms

The frequency of discussions on ESG and its progress evaluation in the boardroom across the globe is evenly spread.

- As per the study conducted in India, approximately 27% Indian boards discuss ESG progress quarterly, while 20% boards discuss it annually.
- In the U.S., only 16% boards evaluate it quarterly and 21% do it annually.
- European boards discuss ESG progress more frequently, with 26% boardrooms having quarterly discussions and nearly 14% discussing it once a year.

Acknowledgements

IOD contributors:

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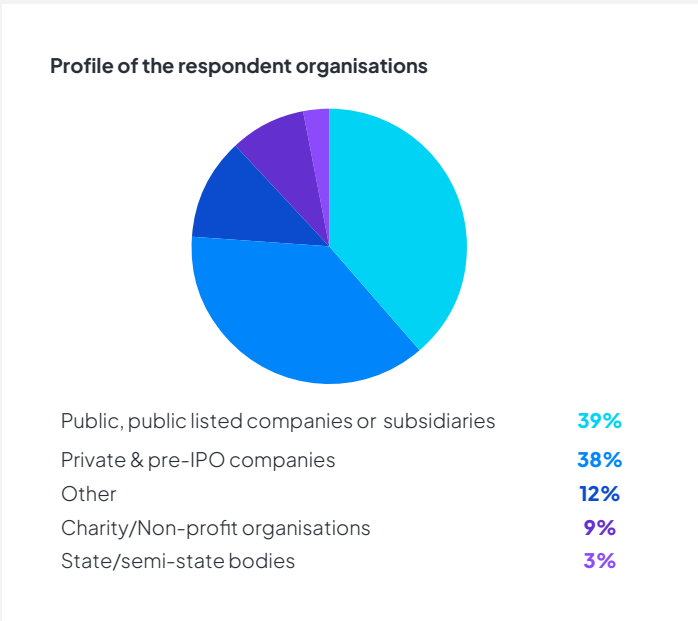
Annexure 1 – Survey Demographics

Board Role	
Chair/President	13.46%
Non-Executive Director	3.85%
Managing Director	8.65%
Executive Director	8.65%
Independent Non-Executive Director	5.77%
Lead Independent Director	0.96%
Company Secretary	7.69%
Consultants	9.62%
Other	41.35%

Market Capitalization (USD)	
Less than 300 million	57.69%
300 million to 1.9 billion	19.23%
2 to 9.9 billion	12.50%
More than 10 billion	10.58%

Industry Breakdown	
Charity/non-profit	5.77%
Communication Services	0.96%
Construction/Property	4.81%
Energy and resources	10.58%
Financial Services	17.31%
Healthcare and life sciences	1.92%
Industrials	2.88%
Information Technology	8.65%
Manufacturing	16.35%
Materials	0.96%
Professional Services	10.58%
Utilities	1.92%
Other	17.31%

Total Number of Respondents: 104



The Institute of Directors, India

The 'Institute of Directors' (IOD) was established in India in 1990, as an apex professional association for Directors in India under the Societies Registration Act, XXI of 1860 to fill the need for professional development of Corporate Directors and building effective Boards. It has since grown to associate with more than 30,000 senior executives from Government, Public and the Private sectors of India and abroad.

Over the last 30 years, IOD has been nurturing directors of the future and bringing a silent revolution in the Boardroom. IOD supports this generation of board members and the next gen leaders; those who will thrive in the boardroom and support their organisations.

Headquartered at New Delhi, IOD with regional offices in Mumbai, Bengaluru, Hyderabad and Chennai, supports membership services in their geographical regions and major Indian industrial clusters, and organise local events.

IOD remains as India's leading organisation for directors and at the heart of the Boardroom community.

Learn more at iodglobal.com

Diligent Institute

Diligent Institute informs, educates, and connects leaders to champion governance excellence. Diligent Institute provides:

- Original, cutting-edge research on the most pressing issues in corporate governance;
- Certifications and educational programs that equip leaders with the knowledge and credentials needed to guide their organisations through existential challenges
- Peer networks that convene directors and corporate executives to share best practices and insights; and
- Awards and recognition programs that celebrate governance excellence.

Diligent Institute was founded in 2018 as the global corporate governance research arm of Diligent Corporation. Diligent is the global leader in modern governance, providing SaaS solutions across governance, risk, compliance, audit and ESG.

Learn more at diligentinstitute.com